

**BOUNTIFUL REDEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF BOUNTIFUL, UTAH)**

**FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT**

For The Year Ended June 30, 2005

BOUNTIFUL REDEVELOPMENT AGENCY
TABLE OF CONTENTS
For The Year Ended June 30, 2005

| | <u>Page</u> |
|--|-------------|
| Independent Auditor's Report | 1 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 2 |
| Management's Discussion and Analysis | 3-7 |
| Basic Financial Statements | |
| Statement of Net Assets | 8 |
| Statement of Activities | 9 |
| Balance Sheet – Governmental Fund | 10 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund | 11 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities | 12 |
| General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual | 13 |
| Notes to Financial Statements | 14-21 |



Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bountiful Redevelopment Agency

We have audited the accompanying financial statements of the governmental activities of Bountiful Redevelopment Agency, a component unit of the City of Bountiful (the Agency) as of and for the year ended June 30, 2005, which comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Bountiful Redevelopment Agency as of June 30, 2005, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as noted on the table of contents, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2005 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jensen & Keddington

October 6, 2005



Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Bountiful Redevelopment Agency

We have audited the accompanying financial statements of the governmental activities of Bountiful Redevelopment Agency (the Agency), as of and for the year ended June 30, 2005, which comprise the Agency's basic financial statements, and have issued our report thereon dated October 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Jeffrey B. Jensen

October 6, 2005

**BOUNTIFUL REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2005**

As management of the Redevelopment Agency of the City of Bountiful (the Agency), we offer readers of the Bountiful Redevelopment Agency's financial statement this narrative overview and analysis of the year ending June 30, 2005. We encourage readers to consider the information presented here in conjunction with the overall financial statements contained in the Comprehensive Annual Financial Report for the year ending June 30, 2005, issued by the City of Bountiful.

Financial Highlights

- Total fund balance at the end of the year decreased by \$214,574 primarily due to the issuance of \$640,000 in revolving loans and \$237,023 tax increment passed through to the City enabling it to make its annual lease payment to the Municipal Building Authority (MBA) on the Renaissance Towne Centre Parking Structure. The MBA then uses this revenue to service the lease revenue series 2003 bonds which were issued to finance construction on the parking structure.
- Total fund balance at the end of the year was \$4,473,103 while total net assets were \$5,879,468. The difference between the two were capital assets of \$276,431 and expenditures recorded of \$1,129,934 as notes receivable, with repayments recorded as reductions in the notes in the statement of net assets.
- Property tax increment from project areas within Bountiful decreased by \$10,385 from \$532,921 to \$522,536.
- The Agency made \$640,000 in new loans. The majority of these funds were used to attract new businesses to Bountiful City while the remainder was used to rehabilitate existing buildings. A complete breakdown of this loan activity can be found in the FY2006 Agency budget.
- The Agency transferred \$95,754 to Bountiful City's Municipal Building Authority for Renaissance Towne Centre site development.

Overview of the Financial Statements

The Agency is a component unit of the City of Bountiful for accounting purposes. The Agency has no power to impose taxes, fees, or other charges, and is wholly funded by revenues derived from "property tax increment". Property tax increment is the difference in tax revenue between the base year (1978) value of properties located within the Agency project area (the 100-acre area designated by the Agency board) and the current tax revenue generated by the current value of those properties. The difference between those two amounts is collected by the County, reduced by the "haircut" provisions of state law, and remitted to the Agency.

The Agency also receives money from the repayment of principal and interest on loans made to businesses, investment of cash assets, and revenues from Woods Cross RDA, which are payments for contractual obligations incurred under joint project area agreements.

This discussion and analysis are intended to serve as introduction to the Redevelopment Agency of the City of Bountiful's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

BOUNTIFUL REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005

The statement of activities presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Agency adopts a one-year budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with the fiscal year 2005 budget.

Notes to the financial statements. The notes accompanying the financial statements provide additional information that is essential to a full understanding of the Agency financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2005, the Agency's assets exceeded liabilities by \$5,879,468. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**BOUNTIFUL REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

Bountiful Redevelopment Agency's Net Assets

| | Governmental Activities |
|---|----------------------------|
| Current and other assets | \$ 6,503,317 |
| Capital assets | 276,431 |
| Total assets | <u>\$ 6,779,748</u> |
| Long-term liabilities outstanding | \$ - |
| Other liabilities | 900,280 |
| Total liabilities | <u>\$ 900,280</u> |
| Net assets: | |
| Investment in capital assets, net of related debt | \$ 276,431 |
| Unrestricted | 5,603,037 |
| Total net assets | <u>\$ 5,879,468</u> |

At the end of the current fiscal year the Agency is able to report positive balances in net assets.

Bountiful Redevelopment Agency's Changes in Net Assets

| | Governmental Activities |
|---|----------------------------|
| Revenues: | |
| General revenues: | |
| Property taxes | \$ 522,536 |
| Other | 199,532 |
| Total revenues | <u>722,068</u> |
| Expenses: | |
| Redevelopment | <u>368,906</u> |
| Total expenses | <u>368,906</u> |
| Increase in net assets before transfers | 353,162 |
| Transfers | <u>(95,754)</u> |
| Increase (decrease) in net assets | 257,408 |
| Net assets July 1, 2004 | <u>5,622,060</u> |
| Net assets June 30, 2005 | <u>\$ 5,879,468</u> |

**BOUNTIFUL REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

Financial Analysis of the Governmental Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The purpose of the Agency's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The Agency General Fund has a total fund balance of \$4,473,103 all of which is unreserved but designated.

General Fund Budgetary Highlights

There was no change in the original budget.

Capital Assets

The Agency's investment in capital assets at June 30, 2005 amounts to \$276,431 (net of accumulated depreciation). This investment in capital assets includes land and land improvements.

**Bountiful Redevelopment Agency's Capital Assets
(Net of Depreciation)**

| | Governmental Activities 2005 |
|----------------------|------------------------------------|
| Land | \$ 188,747 |
| Improvements to land | 87,684 |
| Total assets | <u>\$ 276,431</u> |

Economic Factors and Next Year's Budget

The past year has shown an encouraging upswing in economic development. Some of the highlights include:

- Approval of the Village on Main Street; a mixed-use development on the former JC Penney's site.
- Groundbreaking for an Applebee's restaurant and Costco store in the joint Bountiful/West Bountiful redevelopment area known as The Commons at West Bountiful.
- Relocation of Gem Smith from West Bountiful City to Colonial Square.
- Relocation of the El Matador Restaurant from West Bountiful City and commencement of construction of a new building at approximately 606 South Main Street.
- Demolition of the old Gulf gas station on the corner of 200 West and 500 South and construction of a new Del Taco restaurant.
- Rehabilitation of the old theatre on Main Street into a dance studio and arts academy.

On the downside, no new development has occurred within the Renaissance Towne Centre project, although the City has given final approval for several new buildings. This lack of development appears to stem from an inability on the developer's part to raise capital, and is not the result of a soft market as has been argued in the past.

**BOUNTIFUL REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

It is anticipated that fiscal year 2006 will bring increased commercial construction, primarily for two reasons. First, as a general rule, most national retail tenants in the Utah market require a minimum primary trade area of 120,000 persons. The South Davis County area currently has a population of about 95,000 persons, which, when coupled with the high residential growth rates in West Bountiful, Woods Cross, and North Salt Lake, makes this area an emerging market. Second, the construction of the Costco store, and the anticipated construction of a Super Walmart store in Centerville indicate that South Davis County is an underserved market.

For fiscal year 2006 the Bountiful City Department of Planning and Economic Development projects the following new commercial construction:

- The Village on Main Street, with an estimated construction value of \$20 – \$25 million, should commence construction by December of 2005.
- Approximately 25,000 square feet of new office/retail space is anticipated at Renaissance Towne Centre, starting in November of 2005.
- A new Suzuki automobile dealership will be built along Highway 89 in conjunction with the existing Lincoln Mercury dealership in the Spring of 2006.
- Buildout of Phase 1 of The Commons at West Bountiful, which consists of two additional pad sites with retail/restaurant buildings of approximately 6,000 square feet each, in the Spring of 2006.

Requests for Information

This financial report is designed to provide a general overview for all those with an interest in the Bountiful Redevelopment Agency finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager or Finance Director, City of Bountiful, 790 South 100 East, P.O. Box 369, Bountiful, Utah 84011-0369.

FINANCIAL STATEMENTS

BOUNTIFUL REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
June 30, 2005

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 1,822,681 |
| Property tax receivable | 900,000 |
| Interest receivable | 11,558 |
| Investments | 1,851,039 |
| Real estate inventory held for resale | 788,105 |
| Notes receivable | 1,129,934 |
| Land | 188,747 |
| Improvements to land, net | 87,684 |
| Total Assets | <u>\$ 6,779,748</u> |
| Liabilities: | |
| Accounts payable | \$ 280 |
| Unearned revenues | 900,000 |
| Total Liabilities | <u>900,280</u> |
| Net Assets: | |
| Investment in capital assets, net of related debt | 276,431 |
| Unrestricted | 5,603,037 |
| Total Net Assets | <u>5,879,468</u> |
| Total Liabilities and Net Assets | <u>\$ 6,779,748</u> |

The notes to the financial statements are an integral part of this statement.

| Functions/Programs | Programs Revenue | | | Changes in Net Assets | | |
|--------------------------------------|------------------|----------------------|------------------------------------|----------------------------------|-------------------------|------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Total |
| Government Activities: Redevelopment | \$ 368,906 | \$ - | \$ - | \$ - | \$ 368,906 | \$ 368,906 |
| Total Governmental Activities | \$ 368,906 | \$ - | \$ - | \$ - | \$ 368,906 | \$ 368,906 |

The notes to the financial statements are an integral part of this statement.

**BOUNTIFUL REDEVELOPMENT AGENCY
BALANCE SHEET – GOVERNMENTAL FUND
June 30, 2005**

| | <u>General</u> |
|---|----------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 1,822,681 |
| Property tax receivable | 900,000 |
| Interest receivable | 11,558 |
| Investments | 1,851,039 |
| Real estate inventory held for resale | 788,105 |
| Notes receivable | 1,129,934 |
| Total Assets | <u>\$ 6,503,317</u> |
| LIABILITIES AND FUND BALANCES | |
| Liabilities: | |
| Accounts payable | \$ 280 |
| Unearned revenues | 2,029,934 |
| Total Liabilities | <u>2,030,214</u> |
| Fund balance: | |
| Unreserved - designated | 4,473,103 |
| Total Fund Balance | <u>4,473,103</u> |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 276,431 |
| Expenditures are recorded when notes are issued from the RDA and the related repayment is a revenue in the funds, but the expenditure is recorded as a note receivable and the repayment is recorded as a reduction of the note in the statement of net assets. | 1,129,934 |
| Net Assets of Governmental Activities | <u><u>\$ 5,879,468</u></u> |

The notes to the financial statements are an integral part of this statement.

BOUNTIFUL REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – GOVERNMENTAL FUND
For The Year Ended June 30, 2005

| | <u>General</u> |
|--|----------------------------|
| Revenues: | |
| Property tax increment | \$ 522,536 |
| Intergovernmental | 76,156 |
| Interest on investments | 123,376 |
| Miscellaneous | 156,256 |
| Total Revenues | <u>878,324</u> |
| Expenditures: | |
| Current: | |
| Salaries and wages | 22,056 |
| Payroll taxes and employee insurance | 7,205 |
| Administrative services | 4,000 |
| Supplies | 3,487 |
| Professional services | 1,525 |
| Insurance | 5,469 |
| Revolving loans issued | 640,000 |
| Site Improvements | 313,402 |
| Total Expenditures | <u>997,144</u> |
| Excess of Revenues Over Expenditures | (118,820) |
| Other Financing Sources (uses): | |
| Transfer out | (95,754) |
| Total Other Financing Sources and Uses | <u>(95,754)</u> |
| Net Change in Fund Balances | (214,574) |
| Fund Balance, Beginning | <u>4,687,677</u> |
| Fund Balance, Ending | <u><u>\$ 4,473,103</u></u> |

The notes to the financial statements are an integral part of this statement.

BOUNTIFUL REDEVELOPMENT AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|-------------------|
| Net change in fund balances - total governmental funds | \$ (214,574) |
| Governmental funds have reported capital outlays, past and present, as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | (11,811) |
| Proceeds from repayment of RDA notes receivable are recorded as revenue in the governmental funds. However, the repayment is recorded as a reduction of the loan in the statement of net assets. | (156,207) |
| Amounts loaned by the RDA are recorded as expenditures in the governmental funds. However, the loan is recorded as an asset for the statement of net assets. | 640,000 |
| Change in net assets of governmental activities | \$ <u>257,408</u> |

The notes to the financial statements are an integral part of this statement.

BOUNTIFUL REDEVELOPMENT AGENCY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL
For The Year Ended June 30, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with final budget - Under (Over) |
|---|------------------|----------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Property tax increment | \$ 532,921 | \$ 532,921 | \$ 522,536 | \$ (10,385) |
| Intergovernmental | 66,166 | 66,166 | 76,156 | 9,990 |
| Interest on investments | 76,530 | 76,530 | 123,376 | 46,846 |
| Assistance loan repayments | 155,245 | 155,245 | 156,256 | 1,011 |
| Total Revenues | 830,862 | 830,862 | 878,324 | 47,462 |
| Expenditures: | | | | |
| Current: | | | | |
| Salaries and wages | 15,500 | 15,500 | 22,056 | (6,556) |
| insurance | 5,030 | 5,030 | 7,205 | (2,175) |
| Administrative services | 4,000 | 4,000 | 4,000 | - |
| Office supplies | 26,300 | 26,300 | 3,487 | 22,813 |
| Professional services | 10,000 | 10,000 | 1,525 | 8,475 |
| Insurance | 500 | 500 | 5,469 | (4,969) |
| Revolving loans issued | 182,110 | 182,110 | 640,000 | (457,890) |
| Site Improvements | 587,422 | 587,422 | 313,402 | 274,020 |
| Total Expenditures | 830,862 | 830,862 | 997,144 | (166,282) |
| Excess of Revenues Over (Under) Expenditures | - | - | (118,820) | (118,820) |
| Other Financing Sources (Uses): | | | | |
| Transfer out | - | - | (95,754) | (95,754) |
| Total Other Financing Sources | - | - | (95,754) | (95,754) |
| Net Change in Fund Balance | \$ - | \$ - | (214,574) | \$ (214,574) |
| Fund Balance, Beginning | | | 4,687,677 | |
| Fund Balance, Ending | | | \$ 4,473,103 | |

The notes to the financial statements are an integral part of this statement.

BOUNTIFUL REDEVELOPMENT AGENCY NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Bountiful Redevelopment Agency conform to accounting principles generally accepted in the United States of America applicable to governmental units. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

(A) Nature of the Agency

The Bountiful Redevelopment Agency (the Agency) is a component unit of the City of Bountiful, Utah (the City). The Agency was established in 1978 pursuant to the provisions of the Utah Neighborhood Development Act of 1969. Its purpose is to prepare and carry out plans for the improvement, rehabilitation, and redevelopment of blighted areas within the territorial limits of the City. To accomplish this objective, the Agency may acquire land and improvements, relocate residents and businesses, demolish deteriorated improvements, grade land, provide ancillary off-site improvements, and resell the land to the public or private sector for development. The Agency can enter into contracts and issue bonds or other obligations. All powers of the Agency are vested in the members of the Board of Directors, which currently consists of the Mayor and members of the City Council of the City.

(B) Government-Wide and Fund Financial Statements

The Agency's basic financial statements include both government-wide (reporting the Agency as a whole) and fund financial statements (reporting the Agency's major funds). Both the government-wide and fund financial statements categorize primary activities as governmental type. The Agency does not have any business-type activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Agency. Governmental activities normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

(C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they became available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

BOUNTIFUL REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(C) Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received.

The Agency reports the General Fund as a major governmental fund.

The General Fund is the government's only operating fund. It accounts for all financial resources of the general government.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

(D) Property tax increment

Most of the Agency's activities are funded by property tax increment financing. Under tax increment financing, the assessed value of all personal and real property within the redevelopment area in the year prior to the adoption of the redevelopment plan becomes the base. In all years following the base-year, the local taxing units receive the taxes generated by applying the current year tax levy to the base year assessed valuation. The Agency will receive any taxes collected due to an increase in the assessed value of the redevelopment area over that of the base-year.

Property taxes are collected by the Davis County Treasurer and remitted to the Agency shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday of August. Taxes are due on November 1 and become delinquent after November 30 of each year.

(E) Budgets

Annual budgets are prepared and adopted in accordance with state law by the Agency's Board of Directors on or before June 22 for the following fiscal year, which begins July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the Board at any time during the year. A public hearing must be held prior to any proposed increase in the Agency's appropriations.

Budgets for the Agency are prepared on the modified accrual basis of accounting. Encumbrance accounting is not used by the Agency.

BOUNTIFUL REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(F) Cash and Investments

The Fund considers cash and investments with original maturities of three months or less to be cash and cash equivalents.

(G) Property, plant and equipment

Property, plant and equipment is carried at cost. Upon disposition of property, plant and equipment, the cost and related accumulated depreciation are removed from the respective accounts. The resulting gain or loss is reflected in the Statement of Activities. Depreciation of property, plant and equipment in service is provided on the straight-line method over the estimated useful life of 10-20 years for Improvements other than buildings.

(H) Estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH AND INVESTMENTS

The cash and cash equivalents and investments balances represent the Agency's allocated share of the cash and cash equivalents and investment pool that are maintained by the City. Accordingly, the Agency follows the City's policy for investments. The City maintains a cash and cash equivalents and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at fair value. The Agency's portion of this pool is displayed on the balance sheet as "cash and cash equivalents" and "investments."

Investment policy – The City's investment policies are governed by Utah State statutes. City funds are invested only in the following: (1) negotiable or nonnegotiable deposits of qualified depositories (See definition of qualified depository under "Deposits" below); (2) repurchase agreements with qualified depositories or primary reporting dealers, acting as principal for securities of the United States Treasury or other authorized investments, only if these securities are delivered to the custody of the City Treasurer or the City's safekeeping bank or are conducted with a qualified depository; (3) commercial paper which is rated P-1 by Moody's Investor Services or A-1 by Standard and Poor's, Inc., having a remaining term to maturity of 270 days or less; (4) bankers' acceptances that are eligible for discount at a federal reserve bank and which have a remaining term to maturity of 270 days or less; (5) negotiable interest bearing deposits of \$100,000 or more which have a remaining term to maturity of 365 days or less; (6) obligations of the United States Treasury including United States Treasury Bills, United States Treasury Notes, and United States Treasury Bonds; (7) obligations issued or fully guaranteed as to principal and interest by the following agencies or instrumentalities of the United States in which a market is made by a primary reporting government securities dealer: Federal Home Loan Bank, Federal Farm Credit Bank, Federal National Mortgage Association, Federal Agricultural Mortgage Corporation, Federal Home Loan Mortgage Corporation, Tennessee Valley Authority, or Student Loan Marketing Association; (8) the Utah State Treasurer's Investment Fund; and (9) fixed and variable rate corporate obligations that meet criteria under the Utah Money Management Act.

The City did not enter into any reverse repurchase agreements during the year.

BOUNTIFUL REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND INVESTMENTS (Continued)

Deposits – Utah State law requires that City funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

Investments – The City Treasurer takes physical delivery of securities or may use a qualified depository bank for safekeeping securities or maintain an account with a money center bank for the purpose of settling investment transactions, safekeeping and collecting those investments. Repurchase agreements with qualified depositories are supported by a safekeeping receipt issued by a qualified depository; otherwise, the securities are in the custody of the City Treasurer or the City's safekeeping bank or trust company. Investments in the State Treasurer's Investment Pool are supported by deposit receipts issued by the State Treasurer's Office.

As of June 30, 2005, the Agency had the following deposits and investments:

| <u>Deposit and investment type</u> | <u>Fair Value</u> | <u>Credit Rating</u> | <u>Weighted Average Maturity</u> |
|------------------------------------|---------------------|----------------------|----------------------------------|
| Cash on deposit | \$ 1,822,681 | N/A | N/A |
| State Treasurer's investment pool | 1,851,039 | N/A | N/A |
| | <u>\$ 3,673,720</u> | | |

The City's cash and cash equivalents and investments are exposed to certain risks as outlined below:

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investing in short term investments. The City's weighted average maturity for investments is less than one year. The City does not make investments with maturity dates longer than planned expenditures.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City follows the State statutes for investments and only invests in investments that are rated A, AA or AAA by Standard & Poor's or comparable ratings from other investor services, such as Moody's. The City also invests in the Utah Public Treasurer's Investment Fund and other bank certificates of deposit. As of June 30, 2005, the Utah Public Treasurer's Investment Fund was unrated.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investments are in the Utah Public Treasurer's Investment Fund, U.S. Treasuries, and qualified financial institutions. The City's investments have no concentration of credit risk.

Custodial credit risk – deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005, \$1,065,552 of the City's \$1,248,847 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

BOUNTIFUL REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 NOTES RECEIVABLE

The Agency has made low cost building rehabilitation loans to businesses in the City. The Agency holds six notes receivable. The terms of those notes are as follows:

| Balance 6/30/2005 | Interest Rate | Monthly Payments Amount | Due through | Balloon Payment Amount | Due |
|------------------------------|--------------------------|------------------------------------|--------------------|-----------------------------------|----------------|
| \$ 54,334 | 3.00% | \$ 579 | April 2009 | \$ 32,740 | May 2009 |
| 373,959 | 3.50% | 4,000 | June 2009 | 224,299 | July 2009 |
| 327,232 | 3.00% | 3,380 | August 2009 | 190,986 | September 2009 |
| 38,136 | 3.00% | 393 | September 2009 | 22,258 | October 2009 |
| 88,062 | 4.75% | 1,756 | January 2010 | - | - |
| 248,211 | 3.00% | 2,414 | April 2010 | 136,419 | May 2010 |
| <u>\$ 1,129,934</u> | | <u>\$ 12,522</u> | | <u>\$ 606,702</u> | |

NOTE 4 CAPITAL ASSETS

A summary of changes in fixed assets for the year ended June 30, 2005 is as follows:

| | Balance July 1, 2004 | Additions | Deletions | Balance June 30, 2005 |
|--|---------------------------------|--------------------|------------------|----------------------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 188,747 | \$ - | \$ - | \$ 188,747 |
| Total capital assets, not being depreciated | 188,747 | - | - | 188,747 |
| Capital assets, being depreciated | | | | |
| Improvements to land | 236,218 | - | - | 236,218 |
| Total capital assets, being depreciated | 236,218 | - | - | 236,218 |
| Less accumulated depreciation | (136,723) | (11,811) | - | (148,534) |
| Total capital assets, being depreciated, net | 99,495 | (11,811) | - | 87,684 |
| Total capital assets - net | <u>\$ 288,242</u> | <u>\$ (11,811)</u> | <u>\$ -</u> | <u>\$ 276,431</u> |

Depreciation expense for the year was \$11,811.

NOTE 5 DEFERRED TAXES

In conjunction with the implementation of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions" the City has accrued a property tax receivable and deferred property tax revenue in the amount of \$900,000.

BOUNTIFUL REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 RELATED PARTY TRANSACTIONS

The Agency has no employees of its own. The City employees provide management, accounting, and other required services for which they bill the Agency. For these services, the Agency paid the City \$22,056 for salaries, \$7,205 for related payroll taxes and employee benefits, and \$4,000 for administrative services. In addition, the Agency made a transfer of \$95,754 to the City's Municipal Building Authority fund.

NOTE 7 PROJECTS

For the year ended June 30, 2005 the following activity occurred within the Agency:

Tax increment collected from other taxing agencies for Project Area:

| | |
|--|----------------|
| <u>Project Area 1</u> | |
| District #3 | \$ 324,946 |
| District #5 | 95,293 |
| <u>Project Area 2</u> | |
| District #3 | 9,667 |
| <u>Project Area 3</u> | |
| District #3 | 92,630 |
| Total | \$ 522,536 |
| Tax increment paid to other taxing agencies | |
| | \$ - |
| Outstanding loans to finance RDA projects | |
| | \$ - |
| Amounts expended for site improvements and preparation costs | \$ 313,402 |
| Amounts expended for acquisition of property | \$ - |
| Amounts expended for installation of public utilities and | |
| other public improvements | \$ - |
| Amounts expended for administrative costs | \$ 683,742 |

NOTE 8 COMMITMENTS

The Agency holds a commitment to a developer for 100% of the tax increment generated by certain properties. The City is committed to make the payments through December 31, 2008 or until the City has paid a total of \$200,000 in tax increment to the developer. The Agency has paid a total of \$103,363 of tax increment through June 30, 2005 related to this commitment.

The City, through the Redevelopment Agency, entered into an interlocal government agreement with the Davis County School District to construct a new gymnasium, parking lot and other improvements. The gymnasium will be for the shared use of the School District and the City. By the terms of the agreement, the interest of the city in the gymnasium may be assigned to the South Davis Recreation District. In order to fund the construction, the School District has consented to allow the City, through the Redevelopment Agency, to receive 100% of the tax increment from the 1983 RDA project Area for the years 2005 to 2015. The City, through the Redevelopment Agency, has committed \$4,200,000 for initial funding. The amount may exceed this amount as construction circumstances may merit.

BOUNTIFUL REDEVELOPMENT AGENCY **NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 9 RISK MANAGEMENT

The Agency is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As a component unit of the City of Bountiful, the Agency is covered by the City's risk management programs and policies which included property insurance policies, a fidelity bond, public employee dishonesty insurance, and self insured risk management programs for general liability claims and workers compensation. The City has not had a significant change in insurance coverage during the fiscal year ended June 30, 2005, nor during the past three fiscal years has the amount of settlements exceeded insurance coverage.

NOTE 10 DESIGNATED FUND EQUITY

The designated portion of the unreserved fund balance at June 30, 2005 is for future redevelopment projects.

NOTE 11 RETIREMENT PLAN

Cost Sharing Defined Benefits Pension Plans

The Agency participates with the City in one of the Utah Retirement Systems (URS) cost-sharing multiple-employer public employee retirement systems (the Plan) which is a defined benefit retirement plan covering public employees of the State of Utah and employees of participating local governmental entities. The URS is administered under the direction of the Utah State Retirement Board whose members are appointed by the governor of Utah. The URS is considered part of the State of Utah financial reporting entity and is included in the State of Utah comprehensive annual financial report. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

The City and the Agency have no liability to pay retirement benefits should the URS fail. The Agency's total payroll was \$22,056 for the year ended June 30, 2005. Of that amount \$16,880 was eligible to participate in the Non-contributory System of the plan. The nature of the employer's legal obligation to contribute to the plan at June 30, 2005 is as follows, expressed by dollar amount and as a percentage of the covered payroll:

| Agency's contribution (vested upon retirement) | |
|---|-----------------------------------|
| Total Amount | Percent of Eligible Payroll |
| \$ 1,872 | 11.09% |

Reference should be made to the City's 2005 comprehensive annual financial report for additional information regarding the retirement plan for the City.

NOTE 12 DEFINED CONTRIBUTION PLAN

The Agency participates with the City in a defined contribution deferred compensation plan administered by ICMA Retirement Corporation under Internal Revenue Code Section 401(k) for Agency employees covered by the State's Non-contributory retirement plan.

BOUNTIFUL REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 DEFINED CONTRIBUTION PLAN (Continued)

The Plan, available to all full-time Agency employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The 401(k) deferred compensation monies are not available to the Agency, the City, or their general creditors. The Agency contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. The Agency's total payroll was \$22,056 for the year ended June 30, 2005. Of this amount, \$14,572 was eligible to participate in the plan. The Agency participates at a rate of 3.61%. The rate of Agency participation can be changed by the City Council. During the year ended June 30, 2005, contributions totaling \$526 were made to this plan by the Agency and \$0 by employees.

NOTE 13 OTHER REQUIRED FUNDS DISCLOSURE

For the year ended June 30, 2005, the Redevelopment Agency special revenue fund exceeded appropriations by \$262,036.

NOTE 14 SUBSEQUENT EVENTS

The City's Redevelopment Agency entered into three separate agreements to provide loans in the amounts of \$30,000, \$41,000, and \$225,000, respectively, to local businesses. These notes are collateralized by land and buildings, and all bear interest at 3.00%. Monthly principal and interest payments for the first note aggregate \$290, beginning September 2005 and continuing until August 2010 when a balloon payment of \$16,411 is due. Monthly principal and interest payments for the second note aggregate \$396, beginning September 2005 and continuing until August 2010 when a balloon payment of \$22,429 is due. Monthly principal and interest payments for the third note aggregate \$2,173, beginning December 2005 and continuing until November 2010 when a balloon payment of \$122,777 is due.